

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
Item 10 ID#4966
ENERGY DIVISION RESOLUTION E-3954
October 27, 2005

R E S O L U T I O N

Resolution E-3954. Southern California Edison Company (SCE) submits an Advice Letter requesting to modify Preliminary Statement Section ZZ, Energy Resource Recovery Account (ERRA), to include payments made by SCE for its participation in the Lower Colorado River Multi-Species Conservation Program (LCR MSCP). SCE's request is approved with modifications.

By Advice Letter 1884-E Filed on April 8, 2005.

SUMMARY

Southern California Edison Company's (SCE) request to modify Preliminary Statement Section ZZ, Energy Resource Recovery Account (ERRA), to include payments made by SCE for its participation in the Lower Colorado River Multi-Species Conservation Program (LCR MSCP) is approved. SCE may recover costs for its participation in the LCR MSCP for the period from the effective date of this Resolution through the date that SCE's current contract with Hoover ends.

This resolution modifies SCE's request to limit its recovery of the costs of participation in the LCR MSCP from the effective date of this Resolution until September 30, 2017, when SCE's current contract with Hoover ends or until the date the contract ends if it terminates early. SCE must make a separate request to the Commission if it wants to recover the costs of participation in LCR MSCP for any period after termination of SCE's current contract with Hoover.

In approving with modifications, SCE's Advice Letter 1884-E filed on April 8, 2005, the California Public Utilities Commission (CPUC) finds that: (1) the costs paid in LCR MSCP participation are purchased power-related costs; and (2) the costs of participation from October 2005 until SCE's current contract with Hoover terminates may be recovered through the ERRA. In 2003 dollars, SCE's costs are \$50,463 per year from 2006 to 2010; \$123,930 per year from 2011 to 2015, and

\$99,738 per year from 2016 to 2017. SCE's current Commission-authorized bundled service revenue requirement is approximately \$9.1 billion. Thus, SCE's costs to participate in the LCR MSCP will have an insignificant effect on customers' rates.

SCE Advice Letter 1884-E was not protested.

BACKGROUND

The LCR MSCP was created to protect the lower Colorado River environment and to assure continuous supply of water and hydroelectric power to various program participants from California, Arizona, Nevada, and Federal Agencies.

The LCR MSCP is a cooperative, comprehensive and long-term multi-agency effort to conserve habitat and recover threatened and endangered species covering the mainstream of the lower Colorado River. LCR MSCP was created on June 26, 1996 by the U.S. Department of Interior and representatives of the three Lower Colorado River basin states of Arizona, California and Nevada.

The Colorado River provides water and power to over 20 million people (in cities such as Los Angeles, San Diego, Las Vegas, Phoenix and Tucson), irrigates over 2 million acres, and generates up to 10 billion kilowatt-hours of electricity annually.

The purposes of the LCR MSCP are to: (1) protect the lower Colorado River environment while ensuring the certainty of existing river water supply and hydroelectric power operations; (2) address the needs of threatened and endangered wildlife under the Endangered Species Act; and, (3) prevent the listing of additional endangered species on the lower Colorado River.

The LCR MSCP has forty-four participants from Arizona, California, Nevada and various Federal Agencies [Record of Decision, LCR MSCP – April 2, 2005]. The cost of the LCR MSCP over its 50-year term is \$626.2 million, in 2003 dollars, which will be adjusted annually for inflation over the 50-year term of the Program. Each participant bears a percentage share of the cost annually. California has 11 participants to share a total of \$156.5 million for the 50-year term. Arizona has 24 participants, Nevada has 4 participants, and there are 5 Federal participants to share a total of \$470 million for the 50-year term.

SCE is the only utility regulated by the Commission that is seeking cost recovery for participating in the LCR MSCP. In Advice Letter 1884-E SCE requests that its participation cost be included in ERRA Balancing Account under SCE's Preliminary Statement Section ZZ.

NOTICE

Notice of SCE AL 1884-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

No protests were received regarding SCE's Advice Letter 1884-E.

DISCUSSION

Energy Division has reviewed SCE AL 1884-E. Discussion of the relevant facts that lead to our approval of this advice letter with modifications follows:

SCE's costs of participation in LCR MSCP are purchased power-related costs and they should be included as part of ERRA.

SCE buys hydroelectric energy from Hoover. Energy generated by Hoover is derived from the water that flows through its hydroelectric facilities. The water is supplied by the lower Colorado River. Consequently, the river that generates the hydroelectric energy in Hoover "...significantly impacts the viability of downstream wetland and aquatic habitats that typically support the various fish and bird species that deemed threatened or endangered." [Biological and Conference Opinion on LCR Operations and Maintenance prepared by U.S. Bureau of Reclamation (Reclamation) dated April 30, 1997)

The LCR MSCP was formed to protect threatened and endangered species and conserve their habitats. When SCE entered into a second power purchase agreement with the Bureau of Reclamation, Department of Interior in March 1987, the environmental problems were not foreseen. There is now a need to protect the threatened and endangered species and conserve their habitats on the lower Colorado River which is the source of water for the Hoover hydroelectric facilities.

SCE's proportionate share as a participant in LCR MSCP is 1.8% of California participants' share of \$156.5 million, in 2003 dollars, for the 50-year term of the program. However, SCE's contract to purchase power from Hoover ends on September 30, 2017. The total share of SCE participation costs through 2017 is \$1.1 million, in 2003 dollars. SCE's cost from October 2005 to September 2010 is \$50,463 per year, in 2003 dollars or a quarterly payment of \$12,616; the cost from 2011 to 2015 is \$123,930 per year; and from 2016 to 2017, \$99,738 per year, in 2003 dollars. These amounts will be adjusted annually by an inflation factor.

SCE believes that it receives very economical power from Hoover and it is appropriate for ratepayers to assume a fair share of the cost of mitigation proposed under the LCR MSCP.

SCE proposes to record the cost of participation in LCR MSCP in its ERRA Balancing Account. Reasonably incurred costs recorded in SCE's ERRA Balancing Account will be recovered from the ratepayers. In SCE's Advice Letter 1884-E, SCE stated that rates or charges will not be increased as a result of AL 1884-E. However, SCE's ratepayers will ultimately pay for the reasonably incurred costs of participation in the LCR MSCP if these costs are included in the ERRA.

We shall approve SCE's proposal to include its participation costs in the ERRA with the modification that SCE may record these costs in the account until its current contract with Hoover is terminated. If SCE wants to extend the recovery of participation costs beyond the end of its current contract, which is now scheduled to end on September 30, 2017, it must make a separate request to the Commission.

SCE benefits from low cost hydroelectric power from Hoover. SCE's costs for participating in the LCR MSCP are related to its purchased power costs from Hoover, thus these costs should be recovered through the ERRA. SCE's costs for participation in the LCR MSCP are not significant as compared to SCE's total revenue requirements.

COMMENTS

Public Utilities Code Section 311(g)(1) provides that a draft resolution must be issued for public comment at least 30 days prior to being considered by the

Commission. The 30-day comment period for the draft of this resolution was neither waived nor reduced.

On October 13, 2005, SCE filed comments in support of draft Resolution E-3954. |

FINDINGS

1. SCE filed Advice Letter 1884-E on April 8, 2005 requesting authorization to record its costs for participating in the LCR MSCP in the ERRA.
2. SCE's Advice Letter 1884-E was not protested.
3. The LCR MSCP is a cooperative, comprehensive and long-term multi-agency effort to conserve habitat and recover threatened and endangered species covering the mainstream of the lower Colorado River.
4. Energy purchased by SCE from Hoover hydroelectric plant is generated from the flow of water from the lower Colorado River.
5. SCE does not expect its power purchase contract with Hoover to be renewed after September 30, 2017.
6. SCE's participation costs in LCR MSCP through the Year 2017 will total \$1.1 million adjusted annually by an inflation rate.
7. SCE's participation costs are purchased power related.
8. SCE's proposal should be modified to limit its recovery of costs for participating in the LCR MSCP through the end of its current contract with Hoover. That contract is scheduled to end on September 30, 2017.
9. Ratepayers should bear SCE's reasonably incurred LCR MSCP participation costs because the ratepayers receive very economical power from Hoover, and these costs are related to SCE's purchases from Hoover.

THEREFORE IT IS ORDERED THAT:

1. The request of SCE to modify Preliminary Statement Section ZZ, ERRA, to include payments made by SCE for its participation in the LCR MSCP as requested in Advice Letter AL 1884-E is approved as modified by this Resolution.
2. SCE may recover its costs for participating in the LCR MSCP through the ERRA from the effective date of this Resolution until its current contract with Hoover ends.
3. SCE may seek recovery of costs for participating in the LCR MSCP after the end of its current contract with Hoover, scheduled to end on September 30, 2017, by a separate application.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on October 27, 2005 the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director